LISC
Helping neighbors build communities

July 2, 2001

Acting Director
Community Development
Financial Institutions Fund
U.S. Department of the Treasury
601 13th Street, NW
Suite 200 South
Washington, DC 20005

Dear Sir:

Local Initiatives Support Corporation (LISC) is pleased to comment on the CDFI Fund's guidance on New Market Tax Credits (NMTCs).

About LISC. LISC helps neighbors build whole communities. In 20 years, LISC and its affiliates have raised $4 billion in private sector investments, loans, and grants, and directly helped 2,000 nonprofit low-income Community Development Corporations (CDCs) across the country to produce 110,000 affordable homes and over 14 million square feet of commercial and industrial space. CDCs have used LISC's funding to leverage an additional $7 billion from other sources.

Among other activities, LISC has raised $24 million in private equity investments and invested the proceeds in inner-city supermarkets and related shopping centers. In 2000 alone, we committed $25 million of loans and equity investments for economic development activities in low-income communities. We also invest major resources in jobs and income programs, childcare facilities, youth programs, crime and security initiatives and many other programs that directly benefit low-income neighborhoods and their residents.

We believe our perspective may be helpful to the CDFI Fund. We have had extensive experience in raising private capital and deploying it in low-income communities, including for economic development. We also are very familiar with the discussions that led to the enactment of the NMTC. Finally, we hope to participate in activities involving the NMTC, and therefore have an interest in both their workability and long-term integrity.

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Comment. LISC urges the CDFI Fund to provide as much flexibility as possible to enable CDEs to tailor qualified equity investments (QEIs) to prospective investors. A substantial period may elapse between the date a CDE applies for an allocation, is awarded the allocation, signs an allocation agreement, identifies the businesses in which it will invest, and receives QEIs. It will be impossible to know with certainty at the time it applies for a NMTC allocation just which investors will invest how much and in which kinds of businesses. For example, some investors may be interested in certain kinds of businesses (e.g., commercial real estate vs. business loans vs. venture capital). Many investors (especially banks) will want to restrict their investments to certain geographical areas. Some investors may want to invest in their own "private label" CDE. Indeed, since the NMTC is entirely untested, there may other unforeseeable factors that make it impossible to predict the precise deal flow or investor interest that will arise. A CDE must have sufficient flexibility to respond to this emerging market.

This concern is not just hypothetical. LISC's National Equity Fund has raised over $3 billion in private equity investments based on the Low Income Housing Tax Credit. Matching investor preferences with actual community investment opportunities is a greater challenge every year. The NMTC poses a much more complex challenge, since it can support a far more diverse set of activities than the Housing Credit can, and the NMTC will be brand new to investors, CDEs, and businesses alike.

We recommend that a CDE should be able to transfer its allocation of NMTCs to other CDEs with which it shares common control, mission, and community accountability. Of course, the CDFI Fund would have to certify each CDE, although it could provide a very streamlined process for CDEs under common control.

For example, consider a CDFI that creates and controls a for-profit CDE that obtains an allocation of NMTCs. As investment opportunities ripen, the CDE could assign portions of the NMTC allocation to several CDEs also controlled by the same CDFI, whose mission and accountability were the basis for the allocation. Each of the transferee CDEs would be structured to meet investors' needs, e.g., with regard to geography, risk tolerance, investment period, activity type, and so on. No investor would have to invest in activities in which it is not interested. The applicant CDE would not have to worry about predicting with precision just how it will match investors with Qualified Active Low Income Community Businesses.

We believe that the CDFI Fund can accommodate this flexibility without sacrificing accountability. The key factor is to limit transfers of allocations to CDEs under common control.

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That way, the Fund can be assured that the entity responsible for the applicant CDE will remain responsible for all investments made pursuant to that allocation.

<u>Conclusion.</u> That concludes our comment. We appreciate the Fund's consideration of it.

Sincerely,

Benson F. Roberts
Vice President for Policy